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# Position paper on mandatory continuing professional education for the accounting profession

American Institute of Certified Public Accountants

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**POSITION PAPER**  
**ON**  
**MANDATORY CONTINUING PROFESSIONAL EDUCATION**  
**FOR**  
**THE ACCOUNTING PROFESSION**

**American Institute of  
Certified Public Accountants  
New York, New York**

## **FOREWORD**

**This position paper on mandatory continuing professional education for the accounting profession was prepared by the Special Committee on Mandatory Continuing Professional Education to set forth the need and reasons for the requirement. The paper presents the opinions of the Special Committee on the issues discussed and was accepted by the Board of Directors for publication.**

**September 1985**

## **PREFACE**

Mandatory continuing professional education (CPE) requirements are placed in effect to protect the public interest. Users of certified public accountants (CPA) services, i.e., the general public which relies upon and is affected by information provided by CPAs, typically lack the necessary knowledge to judge whether those services are rendered in a competent manner. Mandatory CPE provides the general public with a measure of assurance that CPAs are maintaining their competence by staying abreast of newly issued accounting and auditing standards, changes in the Tax Code and Regulations, and other governmental requirements affecting matters dealt with or handled by CPAs.

Currently 47 of the 54 CPA licensing jurisdictions have a CPE requirement for CPAs in public practice. Nearly all of these CPE requirements were enacted or promulgated within the last decade.

In those states with mandatory CPE requirements the law applies to all CPAs in public practice. Therefore the general public is assured that all CPAs in public practice in jurisdictions with those requirements are under a legal compulsion to take CPE to maintain their competence.

Despite the widespread acceptance of mandatory CPE, there are misconceptions about the requirement. To dispel those misconceptions, this paper was prepared to set forth the

rationale for mandatory CPE and to address other issues which have been raised from time to time.

The rationale for mandatory CPE is presented in under the following three main topics which arise most frequently in discussions of the need for the requirement:

- o The Public Interest Is Served by Manadatory CPE for CPAs.
- o CPE Is Needed to Maintain Professional Competence.
- o CPE Should Be Mandatory Rather Than Voluntary.

Other issues which have been raised regarding mandatory CPE are discussed under the following headings:

- o Mandatory CPE Is Cost-Effective.
- o CPAs in Nonurban Areas Can Satisfy a Mandatory CPE Requirement.
- o Peer Reviews Are Not a Substitute for Mandatory CPE.
- o Reexamination Is Not an Alternative to Mandatory CPE.
- o Mandatory CPE Requirements Should Be Flexible.

**THE PUBLIC INTEREST IS SERVED BY MANDATORY CPE FOR CPAs**

Mandatory CPE for the accounting profession serves the public interest by providing a measure of assurance to the general public, who are users of the professional services of CPAs. Through mandatory CPE the public receives assurance that services are being rendered by CPAs who are abreast of current standards and other developments impacting their professional practices. Members of the general public typically are not in a position to judge the quality of services provided by CPAs because of the complex technical nature of accounting and auditing knowledge and related subject matter.

CPAs stand in a unique position among professionals. The uniqueness arises from the fact that their reports, prepared for clients, are also relied upon by credit grantors, potential investors, and other third parties who usually have no personal contact with the CPAs. CPAs are engaged by clients who typically, through ongoing personal contact, have confidence in their professional competence. Mandatory CPE provides a measure of assurance to third parties who rely on CPA reports that the CPAs who prepared those reports are maintaining their competence.

Professional services provided by CPAs affect nearly all Americans to some degree. CPAs perform a wide variety of professional services for clients ranging from multinational

corporations and governmental units to small retail outlets and individuals with modest incomes. The services provided to that broad range of clients, to the extent that they influence business and economic decisions, can have a profound effect upon those who rely upon the quality of those services. It is essential to the public interest that those services be rendered by CPAs who are competent to do so.

The knowledge and expertise required of CPAs for professional services are constantly evolving and expanding. Changing economic conditions, new forms of business organizations, or new financing methods create the need for new accounting and auditing standards to guide CPAs in rendering their services. Changing legal conditions, which may spring from Acts of Congress\* or from other governmental actions including court decisions, impact on financial or tax reporting requirements. These changing conditions, beyond the control of CPAs, cause new CPE courses to be created and compel CPAs to acquire the knowledge they offer.

In addition to changing economic and legal conditions, there is an explosion of knowledge required for rendering professional

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\*Examples include:

Employee Retirement Income Security Act of 1974 (ERISA)

The Tax and Fiscal Responsibility Act of 1982 (TEFRA)

accounting services. This rapid increase in knowledge arises in part from developments such as the application of ever-changing computer technology to business organizations, new forms of communication, application of advanced mathematical and other advanced social science techniques to business, and advancement in understanding human behavior, among other developments. This explosion of knowledge makes obsolete within five or ten years much of the knowledge CPAs acquire by collegiate study and is another major reason to require CPAs to take CPE courses.

Mandatory CPE is in the public interest because the intangible nature of CPAs' services could result in services of less than acceptable quality being offered which would not be readily perceptible to clients and others who rely on them. Mandatory CPE causes CPAs to maintain their professional competence by staying abreast of new accounting and auditing standards arising from changing economic and legal conditions as well as from the explosion of knowledge resulting from technological developments.



## **CPE IS NEEDED TO MAINTAIN PROFESSIONAL COMPETENCE**

We are a country with a strong traditional belief in the worth of education. That belief is grounded on the realization that competence is dependent on acquiring knowledge through education. The general public supports this belief in education by its great faith in the ability of the education system to impart knowledge. Education is fundamental to the American way of life.

CPE is a logical extension of a CPA's schooling and an essential element of professionalism. CPE helps CPAs maintain their professional competence on a current basis. Some CPE courses refresh or renew knowledge while others provide knowledge about new professional standards or legal requirements. CPE exists because of the growth of new knowledge and the acceleration of that growth. CPAs cannot effectively stay abreast of that accelerating growth without CPE.

CPE courses are effective learning tools. Course instructors are experts in the subjects they teach. Many CPE courses arise from new accounting or auditing standards or from changes in the Income Tax Code and Regulations. CPE courses enable practitioners to learn about developments soon after they occur and, as a consequence, provide clients with timely advice.

Data provided by a study\* made for the California State Board of Accountancy and further AICPA analysis provides the following comparison of authoritative pronouncements issued by official accounting bodies during the decades of the 1960's, 1970's and projected for the 1980's, and supports the contention that there is an accelerating growth in new professional standards.

	<u>1960's</u>	<u>1970's</u>	<u>1980's**</u>
Financial Accounting Standards Board and Accounting Principles Board: Opinions, Statements and Interpretations	17	83	114
Technical Bulletins	--	19	22
Securities and Exchange Commission: Accounting Series Releases	30	161	106
American Institute of CPAs: Statements on Auditing Procedures and Standards, and Interpreta- tions	12	104	120
Statements of Position and Accounting Interpretations	--	94	108
Statements on Management Advisory Services and Interpretations	3	27	38
Statements on Responsibility in Tax Practice	6	5	--
Statements on Quality Control Standards, and for Accounting and Review Services	--	4	38
International Accounting and Auditing Standards	--	15	60
	<u>68</u>	<u>512</u>	<u>606</u>

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\*"On the Value and Relevance of Mandatory Continuing Professional Education for Licensed Accountants." The California State Board of Accountancy, 1980.

\*\*Projected for the 1980's decade based upon data for the period 1980 through 1984.

There is an increasing amount of research on the attitudes of CPAs and users of their services toward CPE. Findings of these studies support mandatory CPE. A Colorado Society of CPAs study\* found that users of CPA services believe overwhelmingly (77 percent) that mandatory CPE is in their best interest as clients. Furthermore, recent surveys of CPAs in Indiana and Massachusetts, which have mandatory CPE requirements, showed that more than 80 percent of those replying to the survey approved of mandatory CPE.

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\*"Survey of Clients' Opinions About Continuing Professional Education For Certified Public Accountants." Colorado Society of Certified Public Accountants, 1984.

**CPE SHOULD BE MANDATORY RATHER THAN VOLUNTARY**

CPE should be mandatory rather than voluntary so that the general public will have a measure of protection and assurance as to the level of competence of CPAs practicing public accountancy. That measure of protection and assurance is not available through voluntary CPE.

Financial information and reports thereon, tax and other consultation services provided by CPAs are too important to the economic community to risk free market forces to control the behavior of practitioners. Although the marketplace might eventually weed out most incompetents, users of the professional services and information, including the general public, could suffer in the meantime. If the possibility of financial harm can be lessened by a mandatory CPE requirement, then the public interest has been served.

Proposals that mandatory CPE be imposed by professional associations of CPAs as membership requirements rather than by state statutes are not sufficient. CPAs are not required to be members of state CPA societies or the American Institute of CPAs, but they are required to be licensed to practice under a state accountancy statute. State boards of accountancy should have the authority to administer a CPE requirement as a condition to practice public accountancy in order to ensure that all permit holders have taken a minimum amount of CPE.

The idea that all CPAs will take CPE regardless of the existence of a mandatory requirement is not realistic. That conclusion is supported by a study\* made by the New York State Society of CPAs which found that, prior to the inception of a voluntary CPE program, nearly one-third of the CPAs polled took no CPE courses. Even after a voluntary CPE program was started in New York, 46 percent of the practicing CPAs in the program took only 20 hours or less of CPE per year. The study also revealed that those who take only a limited amount of CPE will tend to take less CPE in following years.

CPE should be mandatory to provide assurance that the public is protected by requiring that all holders of permits to practice public accountancy are meeting similar minimum standards for maintenance of their professional competence.

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\*An Analysis of the Factors Related to Whether Practicing CPAs Pursue Formal Professional Education Throughout Their Careers.  
New York State Society of CPAs, 1982.

**MANDATORY CPE IS COST-EFFECTIVE.** Mandatory CPE is cost-effective because the benefits derived outweigh the costs associated with the program. Those benefits and costs, due to their characteristics, cannot be readily reduced to dollar amounts. Comparisons can be made, however, based on understandings of those factors.

Mandatory CPE helps maintain the competence of CPAs and, accordingly, serves to reduce substandard work. As a consequence the business community, which depends heavily upon CPA reports for interpretation of financial transactions, receives increased assurance that the reports are reliable. It follows that the reduction of substandard work eases the disciplinary burden placed on regulators of the profession.

From their awareness of mandatory CPE requirements, users of CPA services receive confidence that the professionals they have retained are required to maintain their competence so as to carry out their duties in an effective manner. This confidence in the competence of CPAs serves the public interest by facilitating business transactions with which their work is associated.

Mandatory CPE is no more costly to a practitioner than an equivalent amount of CPE taken on a voluntary basis. Registration costs for CPE courses are dependent, naturally, upon presentation and site costs incurred and will vary from

locale to locale. Nevertheless, registration costs for 40 hours of CPE are the same regardless of whether the courses are taken under a mandatory CPE requirement or on a voluntary basis.

Billing time lost because of attendance at CPE courses is cited sometimes as a major cost of CPE. The impact of lost billing time is reduced by CPAs taking CPE courses during their less busy periods. Also, if necessary, working time can be scheduled to accommodate both client needs and CPE course attendance. Furthermore, since CPAs usually have some 2,000 hours of professional time available annually, 40 hours or 2 percent is not a significant proportion.

Travel expense associated with attendance at CPE courses can be kept at a minimum. Most CPE courses are one-day presentations and are offered over a period of weeks in more than one location in a state. As a result CPAs typically take CPE course offerings in the community in which they practice or nearby, so they usually need not incur overnight hotel expense.

**CPAs IN NONURBAN AREAS CAN SATISFY A MANDATORY CPE REQUIREMENT.**

CPAs located in nonurban areas can satisfy a mandatory CPE requirement. They do not have to travel to an urban center for CPE although they may choose to do so to obtain the benefit of personal association with other professionals.

CPE credit can be earned in many ways. CPE courses are provided by educational institutions (some of which are in nonurban locations), accounting firms which may open their in-house courses to other CPAs, the AICPA, state societies of CPAs, and other education providers. In addition to the large number of CPE lecture courses offered, there are self-study courses which may be in the form of video-cassettes. CPE credit may also be granted in most states by serving as a course instructor or by writing articles for publication.

Inasmuch as CPE courses are usually offered in many locations in a state, CPAs can minimize travel expenses by attending courses scheduled nearby. Travel expense can be further reduced by selecting CPE offerings that coincide with other business trips. The many ways available to earn CPE credit enable CPAs, regardless of their location in a state, to satisfy a mandatory requirement readily and inexpensively.

PEER REVIEWS ARE NOT A SUBSTITUTE FOR MANDATORY CPE. Peer reviews, often called quality reviews, are not a substitute for mandatory CPE because they do not impart technical knowledge or understanding of technical developments. Rather, peer reviews are appraisals or studies of accounting firms' procedures for performing accounting and audit engagements and the resultant reports on those engagements.

A peer review discloses whether an accounting firm is performing



accounting or audit engagements in accordance with professional standards. When deficiencies are identified, upgrading of the firm's personnel would likely be achieved through CPE. A peer review by itself does not upgrade the technical competence of individuals. A peer review is firm-oriented and not individual-oriented, and it may determine that upgrading of a CPA's competence through CPE is needed.

REEXAMINATION IS NOT AN ALTERNATIVE TO MANDATORY CPE.

Reexamination is not an alternative to mandatory CPE because it has a different objective. CPE imparts knowledge that can be directly useful to CPAs and their clients, whereas reexamination would likely test licensees on a broad basis which may not relate to the special areas in which the individual being tested practices. Furthermore, reexamination would be more costly to state licensing authorities than administration of a mandatory CPE program, and would probably be more costly to the CPA.

CPE courses provide CPAs with knowledge of technical developments which enable them to strengthen their competence. As a result, their clients receive services rendered by professionals with current indepth knowledge of their business fields. On the other hand, a reexamination process would test licensees by an examination that, of necessity, would be broadly based because it would deal with the full range of accounting and auditing knowledge. An examination of such wide scope

could not effectively test knowledge at the indepth level attained through CPE courses which are tailored to meet the practice needs of individual CPAs.

The preparation and administration of reexaminations would be burdensome and costly for state licensing authorities. States would be confronted with administering additional examinations when they are already heavily burdened by licensing examinations for large numbers of candidates for various professions.

The Uniform CPA Examination could not be used for reexamination of practicing CPAs because it tests CPA candidates on broad subject matter at the entry level to the accounting profession. On the other hand, after years of practice CPAs become highly proficient in specialized areas of knowledge. To undertake the preparation and administration of a series of reexaminations in specialized areas would be more costly and demanding upon a state's licensing authorities than the record-keeping needs of a mandatory CPE requirement.

For individual CPAs, reexamination would demand time for preparation and taking the examination. They would also incur the cost of study materials and probably coaching courses. These demands would be needlessly pyramided upon the time and costs for CPE courses which most CPAs would continue to take to maintain their competence regardless of a reexamination requirement.

**MANDATORY CPE REQUIREMENTS SHOULD BE FLEXIBLE.** As is typically the case with regulatory requirements, there are varying ideas as to what the requirements should be. Those requirements usually deemed as most successful are those that are flexible enough to be applied to multiple situations and not be unduly restrictive. Such should be the case with mandatory CPE requirements.

The vast majority (36 out of 45 jurisdictions) of the mandatory CPE requirements specify at least 40 hours per year. In those jurisdictions with requirements for less than 40 hours, many CPAs voluntarily\* or as a result of their firms' CPE policies take 40 or more hours of CPE. The widespread acceptance of 40 hours as the amount of hours needed annually for CPE is evidence that that amount of time is needed by the typical practitioner to keep abreast of professional developments.

Flexibility is needed to provide for personal selection of the types of CPE courses. Individual CPAs are in the best position to determine those CPE courses that will contribute to their technical competence and that will serve the needs of their clients. For example, CPAs concentrating their practices in tax matters need to put their resources into tax courses.

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\*The Texas State Board of Accountancy reported that CPAs in practice took an average of 50.8 hours of CPE in 1983 although some took considerably less than 40 hours. CPE attendance became mandatory in Texas in 1984.

Similarly, flexibility is needed so that CPE courses that develop nontechnical skills are acceptable for CPE credit. Such nontechnical courses teach CPAs new skills which enable them to improve their professional competence and their ability to serve the needs of their clients.

Mandatory CPE requirements should apply to CPAs as a condition precedent to the renewal of their permits or licenses to practice public accountancy. The public interest is directly involved in the quality of services provided by CPAs in public practice. Protecting that public interest is the reason for mandatory CPE.